Codify by AAPC

Eli's Hospice Insider

Payment: MedPAC Recommends Rate Freeze For Hospice Pay, Again

Declining profit margin, LOS doesn't matter.

Medicare should spend less on hospice, and keeping reimbursement rates flat is a good way to do it, argues the latest **Medicare Payment Advisory Commission** report.

Despite declining profit margins and average lengths of stay, MedPAC still has major concerns about overspending on hospice, it says in its annual report to Congress. And that has resulted in its recommendation for a Medicare payment rate freeze for hospices in 2018.

In addition to meeting patients' end-of-life needs, hospice should be saving the Medicare program money, MedPAC implies in the report. But thanks to long patient stays, it's only doing that for patients with cancer diagnoses.

"Recent research by a Commission contractor examined the literature and conducted a new market-level analysis of hospice's effect on Medicare expenditures," MedPAC says. "That study found that while hospice may produce savings for some beneficiaries (such as those with cancer), overall, hospice does not appear to have produced aggregate savings for the Medicare program because of very long stays among some hospice enrollees."

Medicare has a per patient cap to limit this problem, MedPAC notes. "The number of hospices exceeding the payment cap historically has been low, but we have found that increases in the number of hospices and increases in very long stays have resulted in more hospices exceeding the cap (with the number peaking in 2009 at 12.5 percent and oscillating in recent years)."

Stats: In 2015, 72 percent of Medicare decedents who used hospice had a non-cancer diagnosis, compared with 48 percent in 2000, MedPAC highlights in the report. In 2015, the most common non-cancer primary diagnoses for hospice decedents were heart and circulatory disorders (28 percent) and neurological conditions (22 percent). That's after the **Centers for Medicare & Medicaid Services** banned debility, adult failure to thrive, and certain neurological codes as the primary hospice diagnosis in October 2014.

The number of hospices has increased every year for over a decade, and 2015 was no exception. In 2015, 4,199 hospices provided care to Medicare beneficiaries, a 2.6 percent increase from the prior year, MedPAC notes. The vast majority of the new entrants are for-profits.

In 2015, the number of for-profits increased by 5 percent, while the number of non-profit and government hospices fell by 1 percent and 7 percent, respectively. In that year, about 65 percent of hospices were for-profit, 31 percent were non-profit, and 4 percent were government, MedPAC reports.

In 2015, Medicare spent more than $9 billion, more than half of all hospice spending that year, on patients with stays exceeding 180 days, MedPAC notes. "With the flat per diem payment system (which was in effect until 2016), long stays have been more profitable than short stays, which may have led some hospices to pursue revenue-generation strategies by focusing on patients with long stays, some of whom may not meet the eligibility criteria," it says.

And those long-stay patients are most common in for-profit hospices. "In 2015, average length of stay was substantially higher among for-profit hospices than among nonprofit hospices (105 days compared with 65 days)," MedPAC highlights. The body cites two reasons for the difference:

1. For-profit hospices have more patients with diagnoses that tend to have longer stays, and
2. For-profit hospice beneficiaries have longer stays for all diagnoses than those of non-profit hospices. "For example, among decedents with a neurological diagnosis, the average length of stay was 174 days among for-profit

hospices and 115 days among nonprofits," MedPAC notes.

Higher-than-average live discharge rates also occur at hospices with long stays, MedPAC adds.

At least MedPAC does acknowledge that there are valid reasons for live discharges as well, notes **Judi Lund Person** with the **National Hospice & Palliative Care Organization**.

Audit These Targets, MedPAC Urges

The advisory body reiterates its past advice to target hospices with these red flag areas for audits: a high percentage of stays exceeding 180 days; long-stay patients in Assisted Living Facilities; a cap overage along with long-stay patients; high live discharge rates; and a high share of payments derived from patients before their last year of life.

For-profit hospices also have the highest profit margin on average — 14.5 percent in 2014 versus -0.7 percent for non-profits, according to MedPAC.

"Hospice profitability is closely related to length of stay," the report says. "Hospices with longer lengths of stay have higher margins."

Hospices with a large share of patients in nursing facilities and ALFs also have higher margins than other hospices, MedPAC adds.

Prediction: "CMS's payment reforms in 2016 are expected to modestly reduce the variation in profitability across hospices," MedPAC points out.

In addition to targeted scrutiny, MedPAC makes its rate freeze recommendation, which would strip up to $250 million from hospice spending in 2018 and less than $1 billion over five years.

"The Commission's recommendation for a zero market basket update overlooks the true impact of ever-increasing costs (labor, drugs, compliance, etc.) of operating high-quality hospice programs," Lund Person protests.

Note: See MedPAC's hospice chapter at http://medpac.gov/docs/default-source/reports/mar17_medpac_ch12.pdf.